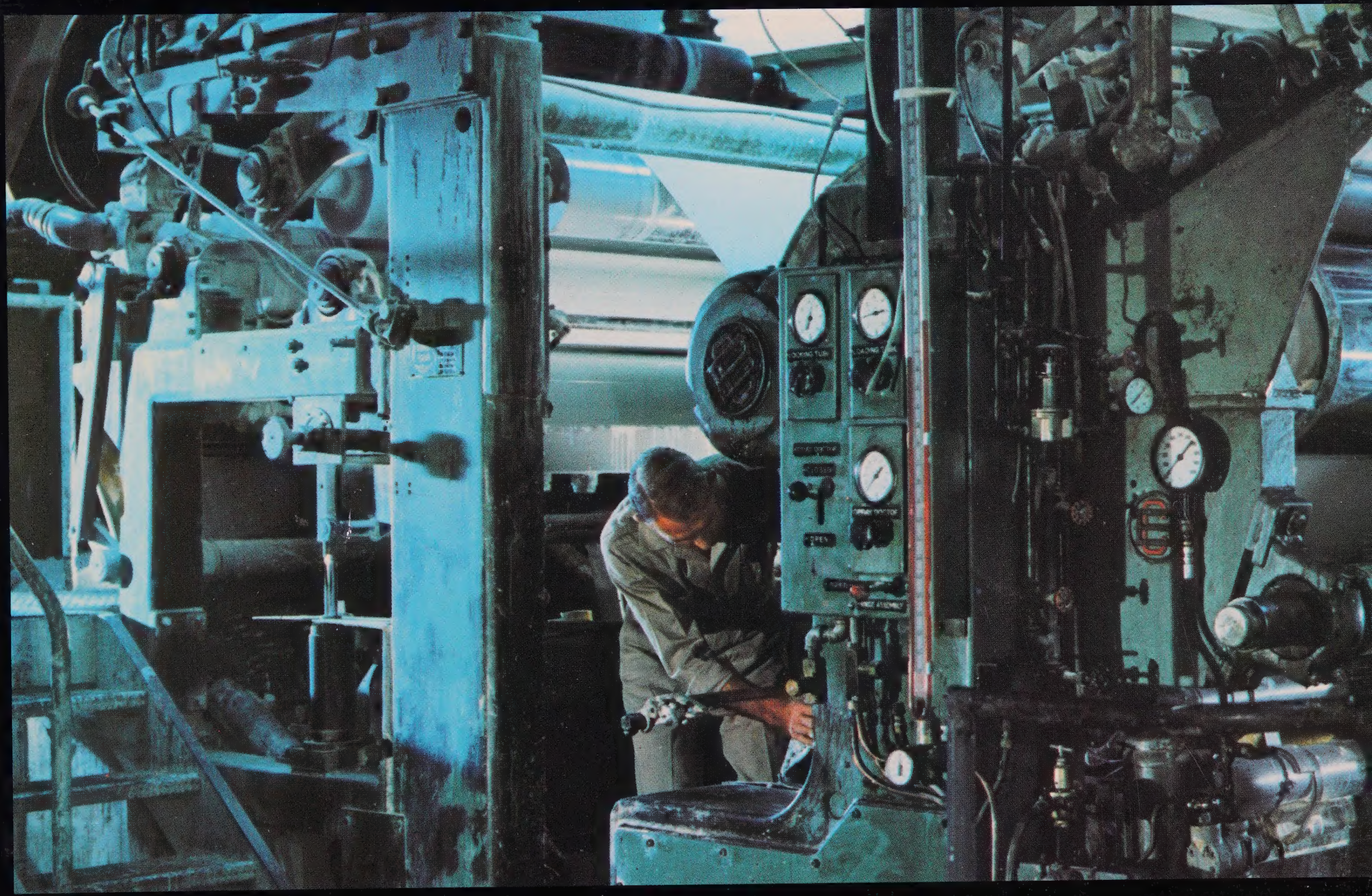
ROLLAND PAPER COMPANY, LIMITED

ANNUAL REPORT 1968



41st ANNUAL REPORT

Rolland Paper Company, Limited
Papermaking specialists

Head Office:
800 Victoria Square, Suite 3620
Montreal 115, Quebec

SALES OFFICES:
Montreal, Toronto, Quebec and London

PAPER MILLS:
St-Jerome and Mont-Rolland, Quebec
and Scarborough, Ontario

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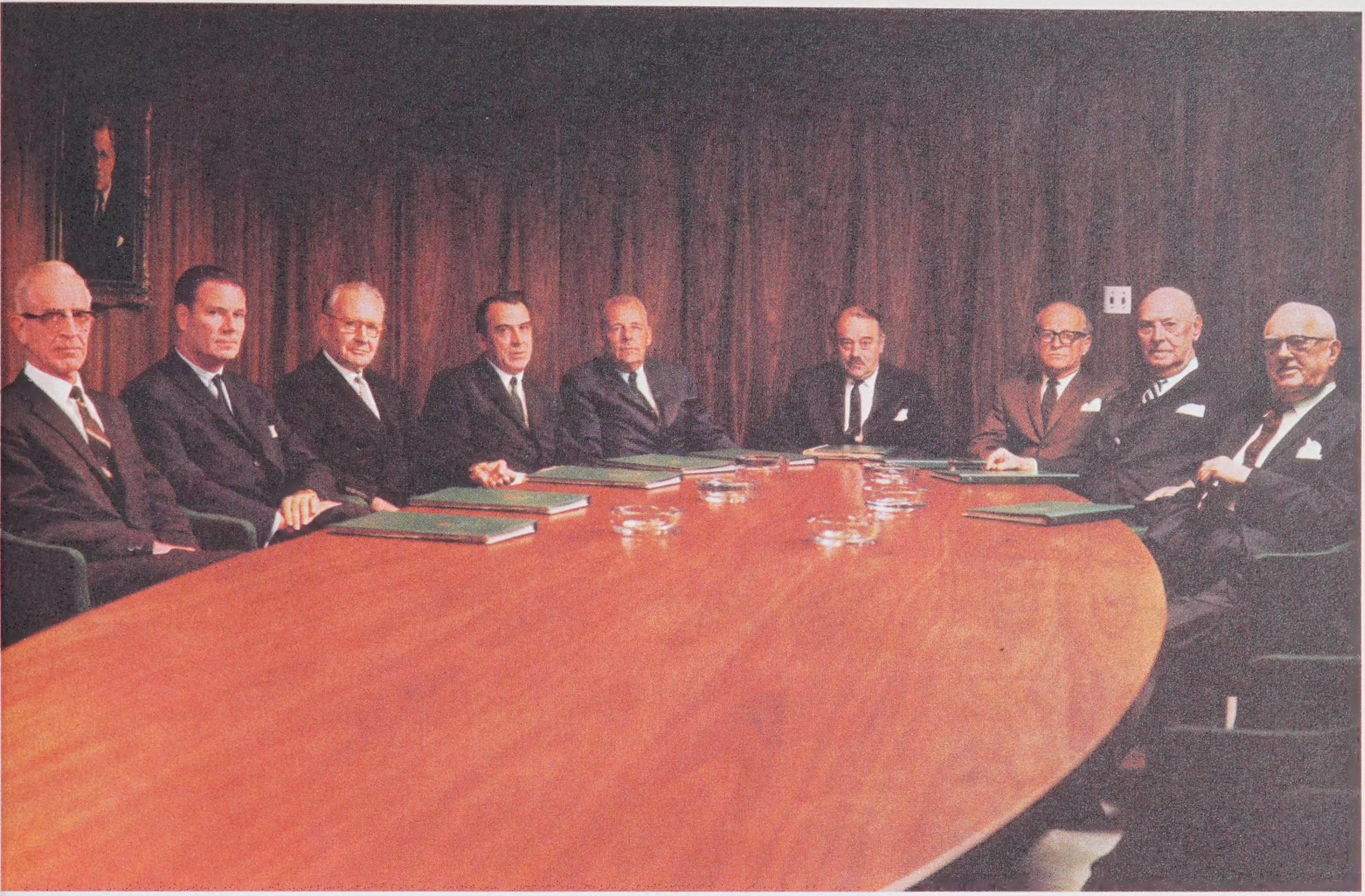
The Annual General Meeting of Shareholders will be held at the Head Office of the Company, 800 Victoria Square, suite 3620, Montreal, Quebec, at 11:00 A.M., March 31, 1969.

Si vous préférez recevoir votre rapport annuel en français, prière d'aviser le Secrétaire, Compagnie de Papier Rolland, Limitée, 800 Place Victoria, suite 3620, Montréal 115, Québec.

HIGHLIGHTS

	1968	1967
Sales in tons	**90,877**	83,972
Net sales	**$34,903,154**	$32,880,771
Net Earnings	**1,406,369**	1,888,865
Per class "A" share	**.74**	1.01
Per class "B" share	**.69**	.96
Cash Dividends	**712,009**	712,009
Per class "A" share	**.40**	.40
Per class "B" share	**.35**	.35
Cash Flow	**2,486,965**	3,061,031
Per class "A" share	**1.38**	1.69
Per class "B" share	**1.33**	1.64
Book Value per class "A" and "B" shares	**8.99**	8.64
Working Capital	**9,734,780**	9,680,578
Long-term Debt	**9,255,500**	9,748,000
Capital Expenditures	**1,261,104**	1,639,203



DIRECTORS

From left to right:

Herménégilde A. LeBlanc, C.A.
Secretary
Rolland Paper Company, Limited

G. Drummond Birks, B.Comm.
Vice-President
Henry Birks & Sons Limited
Montreal

George M. Hobart,
Chairman of the Board,
Consolidated-Bathurst Limited
Montreal

Gérard Plourde, M.Comm.
President
UAP Inc.
Montreal

Albert Rolland
Vice-President and Marketing Consultant
Rolland Paper Company, Limited
Laval

Lucien G. Rolland, B.A., B.A.Sc., C.E.
President and General Manager
Rolland Paper Company, Limited
Montreal

Marc Rolland
Vice-President and Production Consultant
Rolland Paper Company, Limited
St-Jerome

*Joseph A. Weldon, C.A., M.B.E.
Vice-President and Financial Consultant
Rolland Paper Company, Limited
Montreal

Roy H. Ecclestone
Retired Executive
Town of Kirkland

Do not appear on the picture:

E. Jacques Courtois
Partner, Smith, Davis, Anglin, Laing,
Weldon & Courtois
Montreal

Richard A. Irwin
President and Chief Executive Officer
Consolidated-Bathurst Limited
Montreal

Olivier Rolland
Retired Executive
Montreal

*Members of the Executive Committee

OFFICERS

Lucien G. Rolland
President and General Manager

Joseph A. Weldon
Vice-President and Financial Consultant

Albert Rolland
Vice-President and Marketing Consultant

Marc Rolland
Vice-President and Production Consultant

André Asselin, Eng.
Vice-President — Production

Jean-Louis Chollet, Eng.
Vice-President —
Research and Technical Services

Hugh M. Craig, B.Sc., Ph.D.
Vice-President — Sales

André Déom, C.R.I.
Vice-President — Personnel

C. Mackenzie King,
Vice-President — Sales Development

Alphonse St-Jacques, C.A.
Vice-President and Treasurer

Herménégilde A. LeBlanc, C.A.
Secretary

TRANSFER AGENTS

Montreal Trust Company
Royal Trust Company

REGISTRARS

Canadian Trust Company
Bankers Trust Company

SHARES LISTING

Montreal Stock Exchange
Toronto Stock Exchange

AUDITORS

Touche, Ross, Bailey & Smart

DIRECTORS' REPORT

Traditionally Canada has depended heavily on the primary sector to attract investments, develop trade and finance expansion. In the years to come, this course might prove to be inadequate for the full development and utilization of our resources. The behavior of the Canadian economy in 1968 is evidence to that effect. Despite a year of growth, in which the Gross National Product was up 8%, we were unable to maintain a satisfactory level of employment in many areas. The unemployment ratio now standing at 6.9% in Eastern Canada underlines the inability of our industries to grow at a rate sufficient to utilize fully our human resources. This is worrysome if we think of the rapidly increasing number of young people coming out of universities and colleges. One of the remedies, too often neglected, would be a greater reliance and emphasis on secondary industries.

In order to sustain our rate of growth, increase production and develop secondary industry, we must find greater consuming markets outside Canada. In so doing however, the Canadian industry has to reduce cost and price its products competitively while remaining profitable. On the long-term, the exploitation of export markets on a marginal basis would materially weaken the domestic position of the industry.

The future of the Canadian secondary industry has been modified by the tariff reductions agreed upon by our Government at the Kennedy Round negotiations. Whereas traditionally industries could develop under the protection of a high tariff wall, they now find themselves in a much weaker position. This is not only because of a lower tariff protection, but because of the geographical proximity to the highly sophisticated and efficient American industry. While a large population, a high per capita consumption and concentrated markets have allowed the American manufacturers to rationalize production and enjoy low costs, the Canadian industry has been built to serve a much smaller market scattered over as large a geographical area.

These considerations are even more pertinent for the Fine Paper Industry. In 1972, tariffs will have been progressively reduced by 40%, 10 percentage points more than the average reduction. Furthermore, Canadian mills produce at a higher unit cost than their American counterparts. To be competitive, they must specialize in fewer products, lengthen production runs and reduce costs by establishing economies of scale.

1968 was a year in which your Company gave itself the structure and some of the means to meet these objectives. It was a year of consolidation, reorganization and of initiation of several projects which will help to meet profitably the challenges that lie ahead.

The first step was the appointment of a new executive group early in the year. This was followed by many other organization changes in middle management positions. As a result a number of younger men were given increased responsibilities. It is expected that their eventual contribution to the affairs of the Company will be greatly beneficial.

Two other significant measures were taken to improve both capacity and productivity. The first one was the negotiation of a new collective agreement with a provision for continuous seven-day operations. The second was the installation of a computer on our larger machine in St-Jerome. Designed to control such process variables as basis weight, thickness and moisture content, the computerized system should also improve quality. It is an important step in our overall cost reduction effort. Similar installations on fine paper machines are scarce in the world. The task force of young specialists who, during two years, refined the controls, designed the systems and trained the personnel to insure successful implementation of this project, deserve special commendation.

It was to be expected that these projects would temporarily impair results. The readjustments to new personalities in the supervision team, the installation of new equipment on the machines followed by several experimental runs, altogether resulted in higher costs at St-Jerome and Canada Glazed. And combined with higher labour costs, higher taxes and a 50% reduction in dividends from our investment in Consolidated-Bathurst, they account for the lower net earnings for the year of $1,406,369 compared with $1,888,865 in 1967.

While some increases will remain imbedded in our costs, the non-recurring nature of the projects which adversely affected profits, indicate that we can return to the earnings pattern established in previous years. We are confident that 1969 will witness improvements. The demand for fine papers in Canada should continue to be strong and your Company should continue to secure its share of this demand. This year, its sales improved 8.2% in volume to a new high of 90,877 tons sold at stable prices.

In the very short time available until 1972, fine paper producers must retain past performance and must obtain the benefits of a specialized and rationalized industry, soon enough to meet gradually stiffening foreign competition.

Extensive studies undertaken by the Industry during the year reveal that a quickly obtained specialization would result in an increase in productive capacity sufficient to meet the growth in domestic demand during the next three to four years, without any additional capital outlays. During this critical period, funds could be generated internally and used for the creation of a foreign demand for Canadian products. Unfortunately, this specialization process, on an industry basis, is difficult under the present restrictions of the Combines Act. Any delay by the Government in revising the Act, between now and 1972, reduces the benefits that could be accumulated through specialization during that short period.

The purpose of a Combines law is to ensure competition and protect the people against restraint of trade. Its role is to regulate conditions within a defined environment. If this environment changes, the laws must also change if they are to achieve their purpose and fulfill their function. The Kennedy Round tariff reductions have enlarged the scope of trade activity and, thus, the environment within which competition must take place. Measures that formerly could have been considered "restrictive" in the Canadian market, might now take on a more competitive character when viewed in the context of the broader and new environment. The Canadian market is becoming part of a world market in which foreign competitors have already cost and marketing advantages. Canadians, in our opinions, should be allowed more flexibility in organizing themselves to meet this competition.

Jointly with officials of the Department of Trade and Commerce & Industry and of the Combines Branch of the Department of Justice, the eastern section of the Canadian Fine Paper Producers have studied these problems in an attempt to define them and suggest some solutions. Many reports have been issued, but as yet unfortunately no concrete result can be shown. Your Company has participated in these studies. In addition it has, within the limits of its corporate entity, found many avenues for cost reduction, grade and colour elimination and specialization. This program is indeed continuing as we are nowhere near the end of the improvements that we can effect. We are optimistic that we can maintain our position and remain competitive. To accomplish this, we must adopt a radical change in outlook, encompassing new marketing patterns and new production methods which will permit the elimination of short runs and the concentration on fewer lines. With quick response and fast action from Government by way of policy changes and amendments to the Combines Act, Industry could, without undue expenditure of money and energy, achieve all these objectives and play its part in strengthening the position of secondary industry in the Canadian Economy.

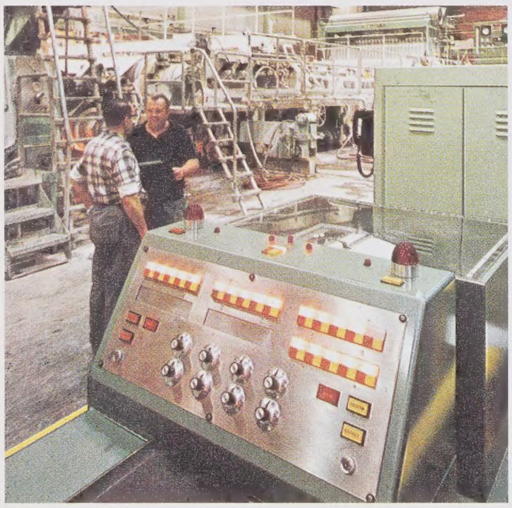
To all members of the Rolland organization, the Directors wish to express their thanks and appreciation. The continued support of shareholders, customers and suppliers is also gratefully acknowledged.

On behalf of the Board of Directors,

Lucien G. Rolland

Lucien G. Rolland,
President and General Manager

Montreal, January 29, 1969.



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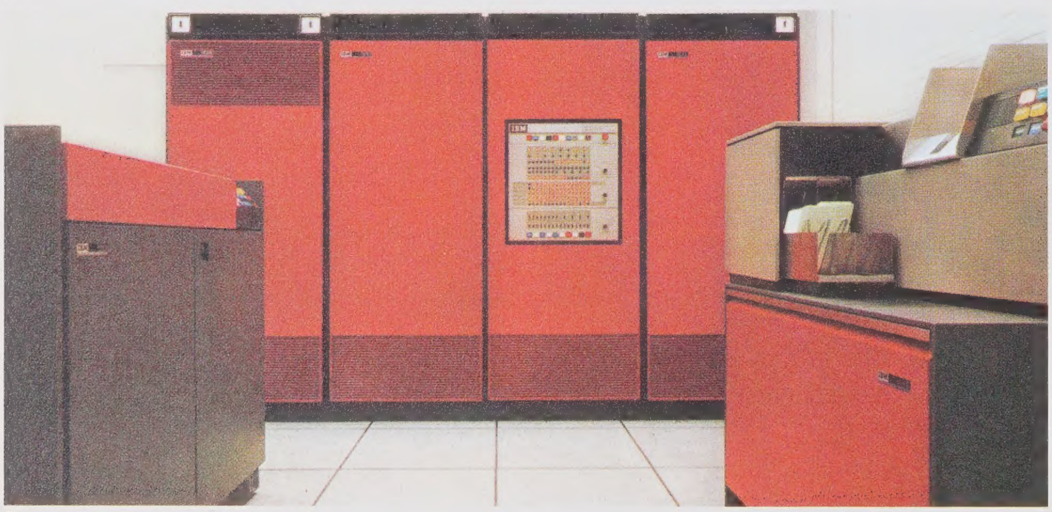

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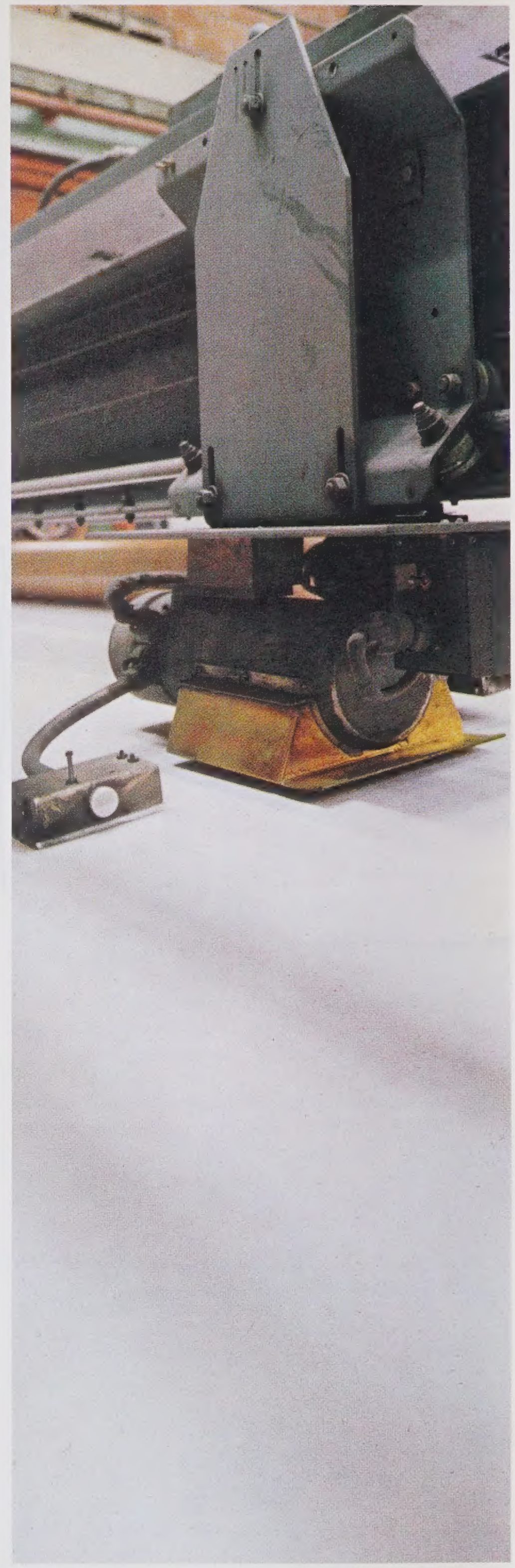

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PROCESS CONTROLS BY COMPUTER UTILIZATION

The process control computer installed at our St-Jerome mill is the first of its kind to be used in the Canadian Fine Paper Industry and will permit manufacturing cost reduction and product quality improvement.

Photo 1

This wet-end console is used by the machine tender to prepare and request computer controlled changes of basis weight and speed.

Photo 2

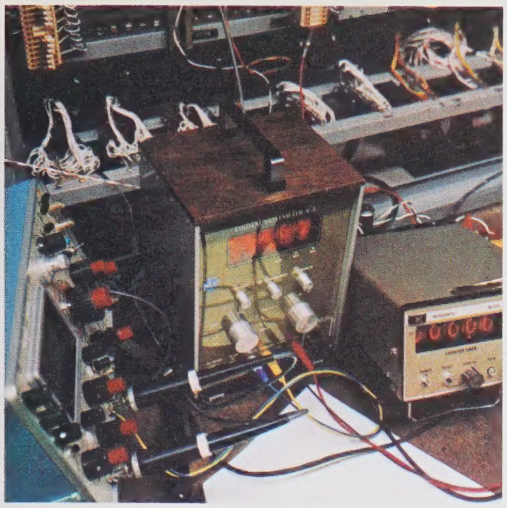
Regular reports are printed at the paper machines to inform the operators on the status of the process.

Photo 3

The computer is the heart of the system. Directly wired to the instrumentation on the paper machine, it analyses the operating conditions, defines and executes the control actions required in the major loops of the process.

Photo 4

The Betagauge-Aquatel-Calitel complex provides the computer with the most essential information needed for obtaining a more uniform product, one of the major objective of the project.



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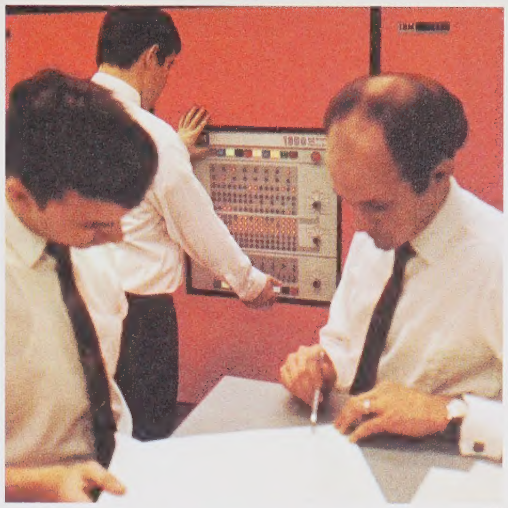

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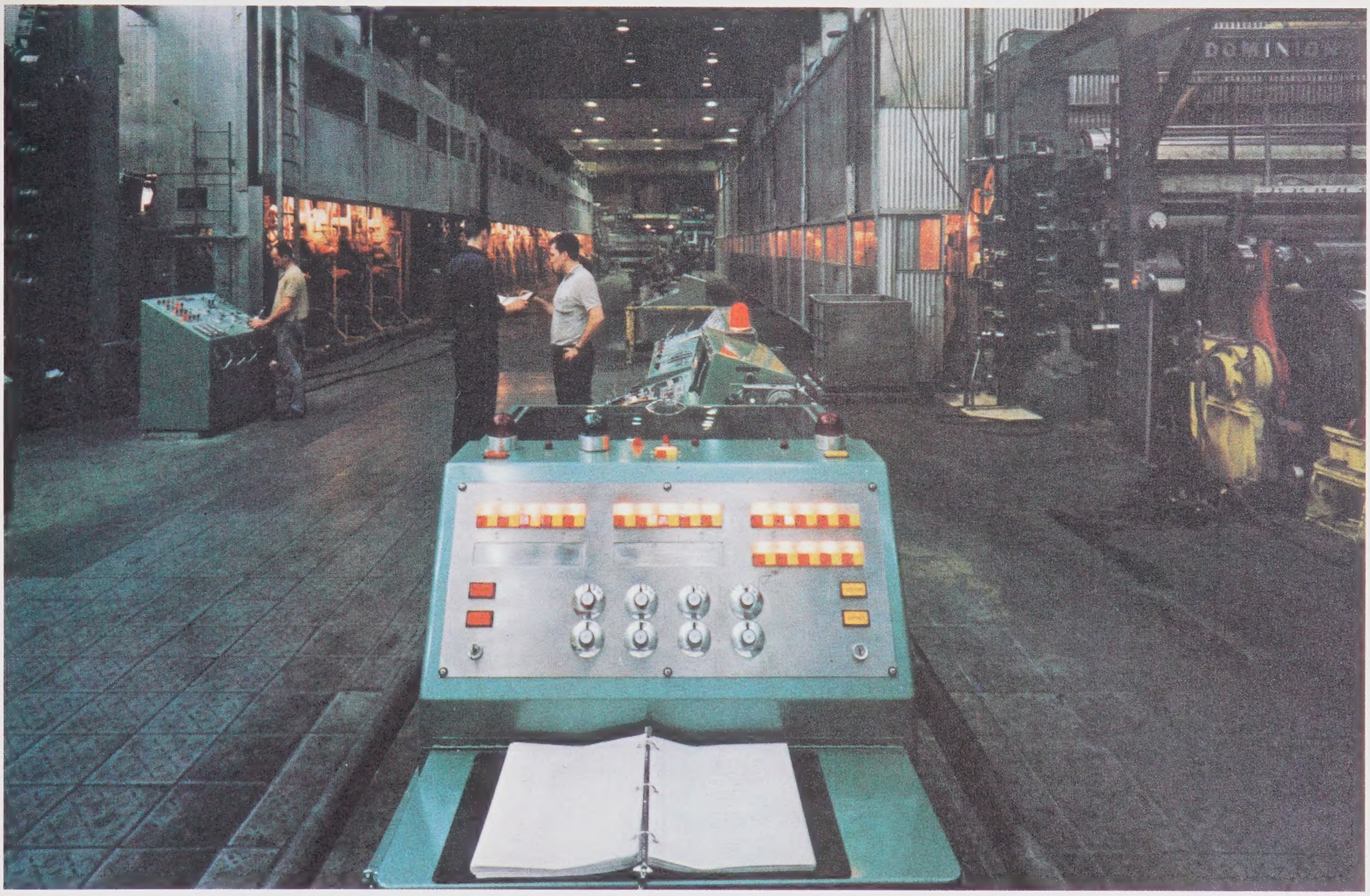

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Photo 5

The process signals connected to the computer in this junction cabinet are carefully analysed to insure maximum accuracy.

Photo 6

Engineers are analysing the results of a basis weight control trial during the commissioning of the computer.

Photo 7

This dry-end communication console is used by paper machine operators to set appropriate conditions for controlling basis weight and moisture with the computer.

THE YEAR IN REVIEW

EARNINGS AND DIVIDENDS

Net earnings were 74¢ per class "A" share and 69¢ per class "B" share, compared with the 1967 high of $1.01 per class "A" share and 96¢ per class "B" share.

Net sales amounted to $34,903,154 as compared with $32,880,771 in the previous year.

Dividend income amounted to $125,000 compared with $250,000 in 1967 and resulted in a decrease in earnings of 6.8 cents per class "A" and per class "B" share. This reduction was due to Consolidated-Bathurst's decision to lower their dividends. The objective of the Company's association with Consolidated is the procurement of woodpulp, the exchange of technical information and possible joint ventures, especially in the fine paper field. Early in 1965, Consolidated subscribed for 400,000 of the class "A" shares issued from the treasury. During the same period, your Company invested the amount realized by the transaction in 125,000 common shares of Consolidated Paper Limited purchased on the market.

A non-recurring adjustment applicable to the whole year was made to accrued holiday accounts in the fourth quarter. This adjustment represents 5 cents less per share.

Quarterly dividends of 10 cents per class "A" share and 8¾ cents per class "B" share were declared bringing the total distribution to 40 cents per class "A" share and 35 cents per class "B" share. Total common and preferred dividend disbursements amounted to $772,444.

FINANCIAL POSITION

Capital expenditures of $1.3 million were made for the modernization of plants and equipment. These expenditures include $600,000 required to improve the efficiency and productive capacity of machines No. 7 and No. 8 at St-Jerome. The remainder covered a wide range of expenditures for plant improvements, new research laboratories, automatic control systems and a liquid alum system.

Working capital at December 31, 1968 amounted to $9,734,780. The current ratio was 4.2 to 1. The entire tax liability for the 1968 taxation year and the tax liability of $1,714,000 for fiscal 1967 appearing in that year's balance sheet, were paid during 1968. This largely explains the reduction of $1,557,162 in our cash balance.

An amount of $449,310 was disbursed to retire and redeem $492,500 of our long-term debt. $300,000 was applied against the 5½% serial debentures while $177,000 was applied against the 5¾% Sinking Fund debentures. The remaining $15,500 was disbursed to redeem the 4½% Sinking Fund bonds. The requirements of the Sinking Fund of this issue are now satisfied until January 2, 1970.

Total assets before depreciation were $49.1 million at December 31, 1968. The rate of return on these assets was 2.9% as compared with 3.8% in the previous year.

MARKETING

The Company's sales volume grew by 8.2% in 1968, in comparison with a 4.3% increase for the Canadian Industry. Our gain of 12.9% in domestic shipments was impressive.

Export sales dropped mainly as a result of devaluation in the U.K. and the introduction of import restrictions in major overseas markets. In the first quarter of the year, over-capacity in the U.S.A. contributed to price erosion. Our Company then curtailed shipments to this market.

The reduction in tariffs coupled with an increase in Canadian Fine Paper production capacity has resulted in a more competitive domestic market. Despite continuous pressure, prices remained stable throughout 1968, and a price increase on selective grades was implemented towards the end of the year.

A Market Research Department was created to assist in detecting trends and evaluating specific areas of potential growth.

MANUFACTURING

Productivity at our mills decreased during the last quarter when one of our largest machines at St-Jerome was temporarily closed down for major changes to equipment, previously referred to in this report. These include a new head-box, foils, an inverted grooved second press, additional dryers and a new calendar with swimming rolls, on No. 7 paper machine. The table rolls on machine No. 8 were replaced with foils. Automatic controls were substantially improved and later on linked with the I.B.M. 1800 computer. Other minor changes had to be made in preparation for the implementation of continuous operations early in 1969.

Total production of our coating plant at Scarborough increased by 9%. Improved operations on all coaters should contribute to better results in the coming year.

At Mont-Rolland, new refining capacity in the stock preparation system and new foils on paper machine No. 3 were installed.

Middle-management, in all mills, is emphasizing better process control and production planning techniques. These efforts, together with the capital expenditures on new equipment, should result in increased productivity.

RESEARCH AND TECHNICAL SERVICES

Research and Technical Departments played a prominent role in the installation of the computerized process control system, the development of new grades and the reduction of sewer losses. After two years of intensive studies, an I.B.M. 1800 computer was installed on No. 8 paper machine. The system is designed to reduce down-time, minimize the losses in raw materials during grade changes, increase paper machine speed and, finally, to obtain a greater uniformity in the quality of finished paper. It will be extended to No. 7 paper machine in the course of 1969.

Our Research Departments in St-Jerome and in Scarborough developed new grades and the specialized manufacturing processes required for their production.

Major studies were undertaken to obtain better recovery of fibers and fillers on our paper machines and to lower sewer losses. By 1969, the Mont-Rolland mill will be in a position to conform to the requirements of the Quebec Water Board, but at St-Jerome, the installation of some additional equipment may be necessary.

(Continued on page 10)

PERSONNEL

The reorganization of the Company at various levels, previously referred to in this report, redistributed responsibilities and reporting relationships. These changes had a short-term influence on performance, but should contribute to a stronger and more effective organization.

Collective agreements with hourly-paid mill employees at St-Jerome and Mont-Rolland expired on April 30th, 1968. After long negotiations and a conciliation period which was interrupted by an illegal 8-hour strike, a new agreement was signed. It provides for the right to operate on a continuous 7-day basis for the period between January 1st and June 1st and between October 1st and December 31st, thus increasing productive capacity by 7,500 tons. Salary increases of 15¢ per hour as of May 1, 1968 and of an additional 15¢ per hour as of June 1, 1969 were agreed to.

A similar collective agreement was also signed with salaried office employees at both mills.

Negotiations for the renewal of the collective agreement at Scarborough were initiated in December. As of February 3rd, conciliation was still under way. We are hopeful of reaching an agreement.

Closer safety measures and better medical supervision reduced the number of lost days in our St-Jerome and Mont-Rolland mills to 859 from 1,823 in 1967.

New impetus was given to the various existing training programs in the Sales and Production Departments. Similar programs are being extended to other areas of the Company.

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ST-JEROME MILL, P.Q.

Photo 1
Established in 1882, the St-Jerome Mill saw the beginning of our fine papers operation. Since then it has been substantially extended and its annual capacity now reaches 85,000 tons.

Photo 2
The supercalander is an off machine apparatus which gives a gloss finish to the paper.

Photo 3
Control room and refiners in stock preparation plant.

Photo 4
Paper calendering is the last finishing given to the paper surface at the dry-end of paper machine.

Photo 5
Our research facilities in St-Jerome include a paper testing laboratory equipped with a wide range of specialized instruments.

Photo 6
General view of one of our four paper machines, at St-Jerome mill.

ROLLAND PAPER COMPANY, LIMITED AND ITS SUBSIDIARY COMPANY

STATEMENT OF CONSOLIDATED INCOME AND EXPENSE

+ 6.15%

	Year ended December 31	
	1968	1967
NET SALES	**$34,903,154**	$32,880,771
Cost of sales	**28,710,079**	26,065,891
Gross profit	**6,193,075**	6,814,880
Selling and administrative expenses — Note 8	**2,383,379**	2,096,579
Depreciation	**1,216,595**	1,148,587
Bond interest	**544,214**	569,739
	4,144,188	3,814,905
	2,048,887	2,999,975
Interest and other income	**428,241**	337,533
Earnings from operations before income taxes	**2,477,128**	3,337,508
Income taxes — Note 5	**1,238,949**	1,723,463
Net earnings from operations	**1,238,179**	1,614,045
Add:		
Dividend income	**125,000**	250,000
Excess of par value over purchase price of bonds and preferred shares redeemed	**43,190**	24,820
NET EARNINGS FOR THE YEAR	**$ 1,406,369**	$ 1,888,865

net to sales 4,027

5,744

ROLLAND PAPER COMPANY, LIMITED AND ITS SUBSIDIARY COMPANY

STATEMENT OF CONSOLIDATED SOURCE AND APPLICATION OF FUNDS

	Year ended December 31	
	1968	1967
SOURCE OF FUNDS		
Cash flow from operations		
Net earnings	**$ 1,406,369**	$ 1,888,865
Depreciation	**1,216,596**	1,148,587
Deferred income taxes	**(136,000)**	23,579
	2,486,965	3,061,031
Decrease of special refundable tax	**88,662**	30,186
Decrease in other assets	**4,623**	6,475
	$ 2,580,250	$ 3,097,692
APPLICATION OF FUNDS		
Capital expenditures	**$ 1,261,104**	$ 1,639,203
Redemption of preferred shares	**—**	57,000
Long-term debt reduction	**492,500**	469,000
Dividends	**772,444**	773,522
	2,526,048	2,938,725
INCREASE IN WORKING CAPITAL	**54,202**	158,967
	$ 2,580,250	$ 3,097,692
WORKING CAPITAL	**$ 9,734,780**	$ 9,680,578

ROLLAND PAPER COMPANY, LIMITED AND ITS SUBSIDIARY COMPANY

CONSOLIDATED BALANCE SHEET

ASSETS	At December 31 1968	1967
CURRENT		
Cash	$ 401,398	$ 1,958,560
Short-term investments at cost (market value $4,298,911)	4,298,911	4,598,438
Accounts receivable	3,224,944	3,016,045
Income taxes recoverable	159,949	86,548
Inventories — Note 2	4,557,802	4,922,399
Prepaid expenses	100,354	110,093
	12,743,358	14,692,083
SPECIAL REFUNDABLE TAX	—	88,662
INVESTMENT		
Consolidated-Bathurst Limited, common shares at cost (market value $2,625,000)	5,862,651	5,862,651
FIXED		
Property, plant and equipment — Note 3	16,176,079	16,136,194
	$34,782,088	$36,779,590

125,000 shares of Con. Bathurst
at cost of $46.90
plus commission
(see FP card)
& page 8 of this report.

On behalf of the Board:
Lucien G. Rolland, Director
J. A. Weldon, Director

LIABILITIES

		At December 31 1968	1967
CURRENT			
Accounts payable and accrued liabilities		**$ 2,708,578**	$ 2,997,505
Income taxes payable		**—**	1,714,000
Long-term debt instalment due within one year		**300,000**	300,000
		3,008,578	5,011,505
LONG-TERM DEBT — Note 4		**9,255,500**	9,748,000
DEFERRED INCOME TAXES — Note 5		**4,503,144**	4,639,144
SHAREHOLDERS' EQUITY			
CAPITAL — Note 6			
AUTHORIZED			
24,800 Preferred shares of $100 each issuable in one or more series			
2,400,000 Class "A" and 800,000 Class "B" shares without nominal or par value			
ISSUED			
14,200 4¼% Cumulative redeemable preferred shares	$1,422,000		
1,360,016 Class "A" and 480,008 Class "B" shares	7,162,683		
	8,584,683		
RETAINED EARNINGS — FOR USE IN THE BUSINESS — Note 7	9,430,183	**18,014,866**	17,380,941
		$34,782,088	$36,779,590

ROLLAND PAPER COMPANY, LIMITED AND ITS SUBSIDIARY COMPANY

STATEMENT OF CONSOLIDATED RETAINED EARNINGS

	Year ended December 31	
	1968	1967
RETAINED EARNINGS AT BEGINNING OF YEAR	**$ 8,796,258**	$ 7,680,915
Add:		
Net earnings for the year	**1,406,369**	1,888,865
	10,202,627	9,569,780
Deduct:		
Dividends		
Preferred shares	**60,435**	61,513
Class "A" shares	**544,006**	544,006
Class "B" shares	**168,003**	168,003
	772,444	773,522
RETAINED EARNINGS AT END OF YEAR	**$ 9,430,183**	$ 8,796,258

ROLLAND PAPER COMPANY, LIMITED AND ITS SUBSIDIARY COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 1968

NOTE 1 — CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements include the accounts of a wholly owned subsidiary company, Canada Glazed Papers Limited.

NOTE 2 — INVENTORIES

	1968	1967
Finished paper and paper in process	**$ 2,730,919**	$ 3,193,490
Raw materials, wires, felts and supplies	**1,462,244**	1,378,573
Repair parts and maintenance materials	**364,639**	350,336
	$ 4,557,802	$ 4,922,399

All inventories are valued at the lower of cost and net realizable value. Finished paper and paper in process are valued at manufactured cost and raw materials, wires, felts and supplies are valued at cost, all applied on the "first in, first out" basis. Repair parts and maintenance materials are valued at cost less amortization.

NOTE 3 — PROPERTY, PLANT AND EQUIPMENT

	Cost	Accumulated Depreciation	Net 1968	Net 1967
Machinery and equipment	$23,665,124	$11,819,678	**$11,845,446**	$11,784,630
Buildings	6,178,521	2,453,417	**3,725,104**	3,787,726
Leasehold improvements	216,411	74,290	**142,121**	100,131
Water power	300,000	—	**300,000**	300,000
Land	163,408	—	**163,408**	163,707
	$30,523,464	$14,347,385	**$16,176,079**	$16,136,194

Depreciation is provided using the straight-line method at rates designed to amortize the cost of the assets over their estimated useful lives.

ROLLAND PAPER COMPANY, LIMITED AND ITS SUBSIDIARY COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 1968

NOTE 4 — LONG-TERM DEBT		**1968**	1967
First Mortgage Bonds			
4½% Sinking Fund Bonds due January 2, 1975	$ 4,000,000		
Deduct			
Bonds redeemed and cancelled, including $867,500 in anticipation of future Sinking Fund Requirements, of which $201,500 is applicable to the balance due January 2, 1975	2,667,500	**$ 1,332,500**	$ 1,348,000
Sinking Fund Requirements			
$300,000 per annum January 2, 1969-1974			
Balance of $400,000 due January 2, 1975			
Debentures — Series "A"			
5½% Serial Debentures, due $300,000 per annum July 2, 1969-1971	900,000		
Deduct			
Instalment due within one year included in current liabilities	300,000	**600,000**	900,000
5¾% Sinking Fund Debentures, due July 2, 1984	7,500,000		
Deduct			
Debentures redeemed and cancelled in anticipation of future Sinking Fund Requirements	177,000	**7,323,000**	7,500,000
Sinking Fund Requirements			
$300,000 per annum July 2, 1972-1979			
$500,000 per annum July 2, 1980-1983			
Balance of $3,100,000 due July 2, 1984			
		$ 9,255,500	$ 9,748,000

The declaration of dividends and the redemption of preferred shares are restricted if such declaration or redemption result in a reduction of the working capital to an amount less than $2,000,000.

NOTE 5 — DEFERRED INCOME TAXES

Capital cost allowances lower than the depreciation charged against income will be claimed for tax purposes thereby increasing income taxes payable for the year by $136,000. This amount has been deducted from deferred income taxes which may be payable in future years.

NOTE 6 — CAPITAL

The preferred shares of the 4¼% series are redeemable at $104 per share and are non-voting unless four quarterly dividends are in arrears. Class "A" shares are non-voting unless the company shall fail, for a period of two consecutive years, to pay any dividend on such shares.

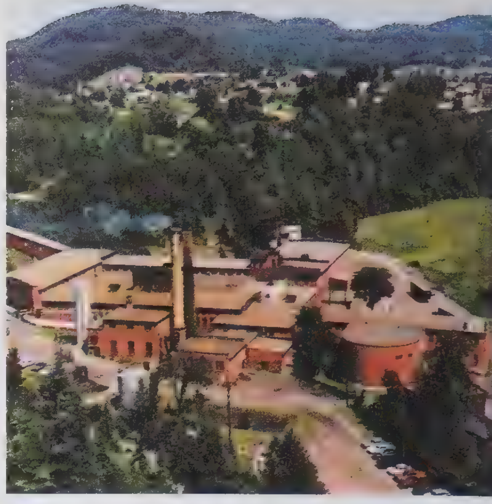
Class "A" shares are entitled to a non-cumulative dividend at the rate of 10 cents per share per annum before payment of any dividend on Class "B" shares. If in any fiscal year dividends at the rate of 5 cents per share per annum are paid on Class "B" shares, any further distribution in respect of that fiscal year shall be made equally, share for share, upon all outstanding Class "A" and Class "B" shares.

NOTE 7 — RETAINED EARNINGS

An amount of $258,000 of retained earnings is restricted under Section 61 of the Canada Corporations Act as a result of the redemption of 2,580 preferred shares in past years.

NOTE 8 — DIRECTORS' REMUNERATION

Administrative expenses include remuneration of $148,718 (1967 — $151,895) paid to directors as directors or officers.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AUDITORS' REPORT TO THE SHAREHOLDERS


2

The Shareholders,
Rolland Paper Company, Limited
Montreal, Que.

We have examined the consolidated balance sheet of Rolland Paper Company, Limited and its subsidiary company as at December 31, 1968 and the consolidated statements of income and expense, retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

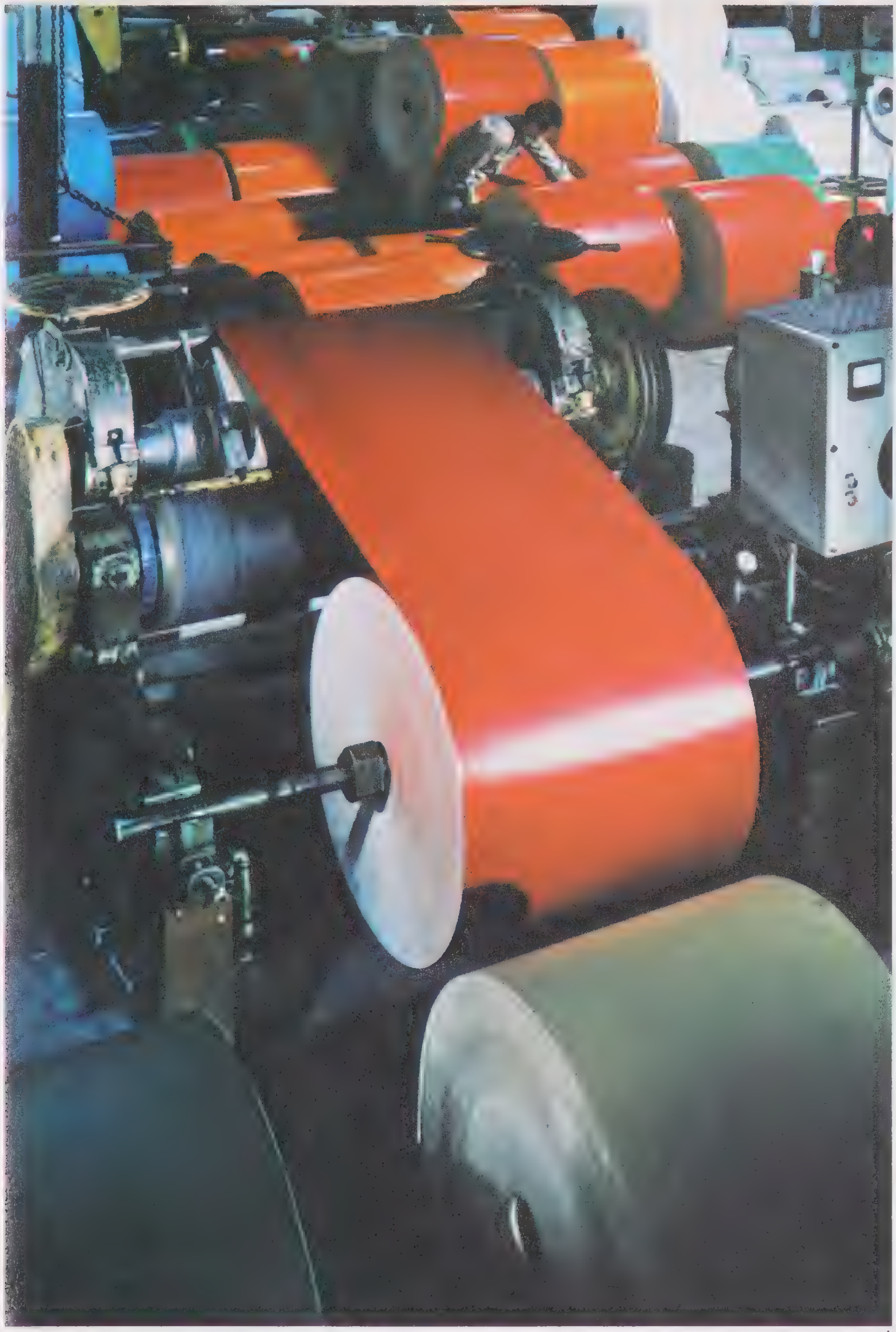
In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1968 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

TOUCHE, ROSS, BAILEY & SMART
Chartered Accountants.

Touche, Ross, Bailey & Smart

Montreal, Que.
January 27, 1969.

3

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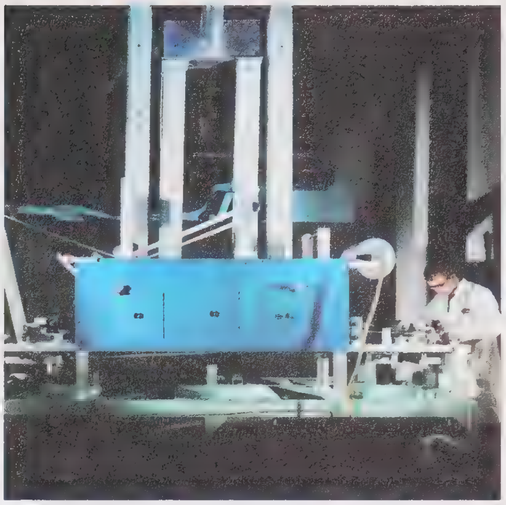

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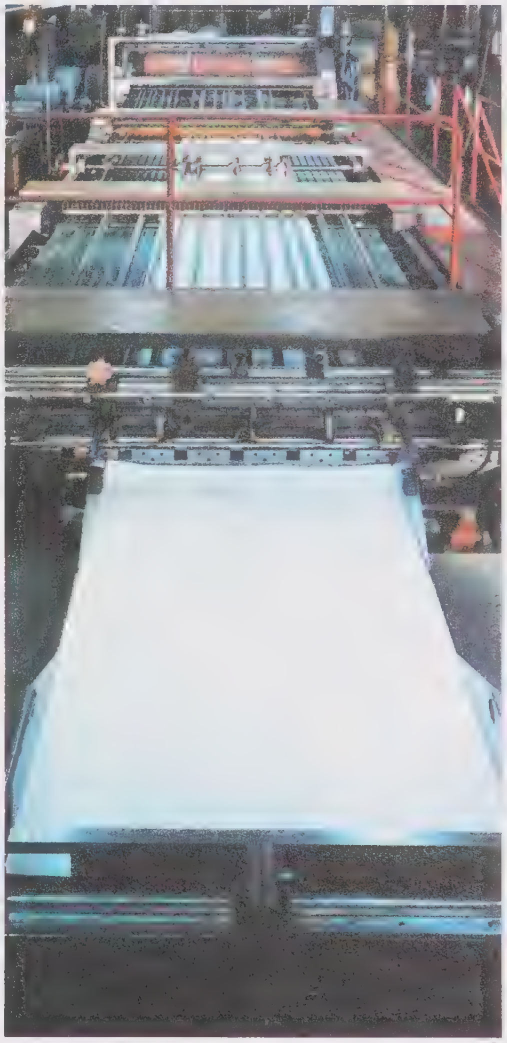

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MONT-ROLLAND MILL, QUEBEC

Photo 1

The Mont-Rolland Mill, established in 1904, produces the bulk of our rag papers. While its production capacity is less considerable it is an important unit in our overall operations.

Photo 2

Sheet forming at wet-end of our two paper machines, in Mont-Rolland mill.

Photo 3

Guillotine trimming

SCARBOROUGH MILL, ONTARIO

The coating division of Rolland Paper Company, Limited acquired in 1964 converts base paper made at our two fine paper mills.

Photo 4

Fancy coated papers being embossed.

Photo 5

A versatile laboratory coater is extensively used by the research group to develop new paper grades and to improve coating formulations.

Photo 6

High-speed sheeter which cuts rolls of paper in sheets.

TEN YEAR COMPARATIVE STATISTICS

		1968	1967
TONNAGE	Sales in tons	**90,877**	83,972
SALES AND EARNINGS	Net sales	**$34,903,154**	$32,880,771
	Dividend income	**125,000**	250,000
	Depreciation	**1,216,595**	1,148,587
	Bond interest	**544,214**	569,739
	Earnings before income taxes	**2,645,318**	3,612,328
	Income taxes	**1,238,949**	1,723,463
	Net earnings	**1,406,369**	1,888,865
	Cash flow	**2,486,965**	3,061,031
	Percentage of net earnings to net sales	**4.0%**	5.7%
	Percentage of net earnings to total assets	**2.9%**	3.8%
DISTRIBUTION OF EARNINGS	Dividend on preferred shares	**$ 60,435**	$ 61,513
	Dividend on class "A" and "B" shares	**712,009**	712,009
	Retained in the business	**633,925**	1,115,343
PER SHARE*	Net earnings per class "A" share	**$ .74**	$ 1.01
	Dividend per class "A" share	**.40**	.40
	Cash flow per class "A" share	**1.38**	1.69
	Book value class "A" and "B" shares	**8.99**	8.64
FINANCIAL	Assets:		
	Working capital	**$ 9,734,780**	$ 9,680,578
	Investment in securities	**5,862,651**	5,862,651
	Fixed assets, net	**16,176,079**	16,136,194
	Other assets	**—**	88,662
	Total working capital and other assets	**31,773,510**	31,768,085
	Financed by:		
	Long-term debt	**9,255,500**	9,748,000
	Deferred income taxes	**4,503,144**	4,639,144
	Preferred shares	**1,422,000**	1,422,000
	Class "A" and "B" shareholders equity	**16,592,866**	15,958,941
		31,773,510	31,768,085
	Ratio of current assets to current liabilities	**4.2:1**	2.9:1
	Capital expenditures	**$ 1,261,104**	$ 1,639,203
OTHER STATISTICS	Number of shareholders	**2,330**	2,343
	Number of employees	**1,447**	1,308

NOTE:
Results of Canada Glazed Papers Limited are included from February 24, 1964.

*Net earnings, dividend and cash flow per class "B" share are 5 cents less than per class "A" share.

*1965 per share calculated on average number of shares for the year.

1966	1965	1964	1963	1962	1961	1960	1959
77,107	73,701	69,120	57,603	57,071	54,195	50,978	47,788
$29,935,187	$28,290,544	$26,032,008	$20,633,530	$20,455,394	$19,379,905	$18,137,985	$16,954,767
262,500	184,375	—	—	—	—	—	—
1,072,238	817,640	698,358	559,077	534,970	558,821	521,133	520,575
597,001	638,021	372,386	144,654	153,985	160,752	186,990	205,649
2,994,320	3,297,750	2,759,939	2,586,179	2,468,021	2,235,482	1,875,855	1,470,736
1,265,915	1,531,424	1,420,628	1,310,063	1,263,796	1,125,503	930,777	712,307
1,728,405	1,766,326	1,339,311	1,276,116	1,204,225	1,109,979	945,078	758,429
3,993,637	4,115,390	2,397,169	1,948,293	1,915,595	1,763,000	1,580,311	1,423,604
5.8%	6.2%	5.1%	6.2%	5.9%	5.7%	5.2%	4.5%
3.7%	4.0%	3.7%	5.2%	5.2%	5.0%	4.5%	3.8%
$ 64,993	$ 71,400	$ 71,400	$ 71,400	$ 71,400	$ 71,400	$ 71,825	$ 72,250
712,009	490,507	408,007	408,007	336,006	327,005	201,003	156,003
951,403	1,204,419	859,904	796,709	796,819	711,574	672,250	530,176
$ .92	$ 1.00	$ .90	$ .85	$ .80	$ .74	$ .62	$ .49
.40	.30	.30	.30	.25	.24	.16	.13
2.15	2.36	1.63	1.32	1.30	1.19	1.06	.96
8.03	8.02	4.69	5.06	4.50	3.94	3.44	2.97
$ 9,522,411	$ 8,408,378	$ 5,542,112	$ 5,066,795	$ 4,461,880	$ 4,041,781	$ 4,235,715	$ 3,787,402
5,862,651	5,862,651	—	—	—	—	—	—
15,651,253	15,500,429	11,211,744	8,128,535	8,097,641	7,725,021	7,298,313	7,325,276
118,848	490,308	5,153,000	—	—	—	—	—
31,155,163	30,261,766	21,906,856	13,195,330	12,559,521	11,766,802	11,534,028	11,112,678
10,217,000	11,267,000	11,879,500	3,077,000	3,351,000	3,531,500	4,104,500	4,449,500
4,615,565	3,422,571	1,522,231	1,117,600	1,004,500	828,100	733,900	619,800
1,479,000	1,680,000	1,680,000	1,680,000	1,680,000	1,680,000	1,680,000	1,700,000
14,843,598	13,892,195	6,825,125	7,320,730	6,524,021	5,727,202	5,015,628	4,343,378
31,155,163	30,261,766	21,906,856	13,195,330	12,559,521	11,766,802	11,534,028	11,112,678
3.7:1	3.6:1	2.3:1	2.9:1	2.7:1	2.5:1	2.8:1	2.6:1
$ 1,215,420	$ 5,154,185	$ 3,011,934	$ 591,885	$ 907,746	$ 1,011,293	$ 495,478	$ 369,532
2,491	2,518	2,331	1,889	1,839	1,633	1,021	1,037
1,260	1,163	1,121	877	905	872	875	874

COVER AND INSIDE FRONT COVER

This coater at the Scarborough mill gives the paper a final coat which improves the printability and the appearance of the paper.

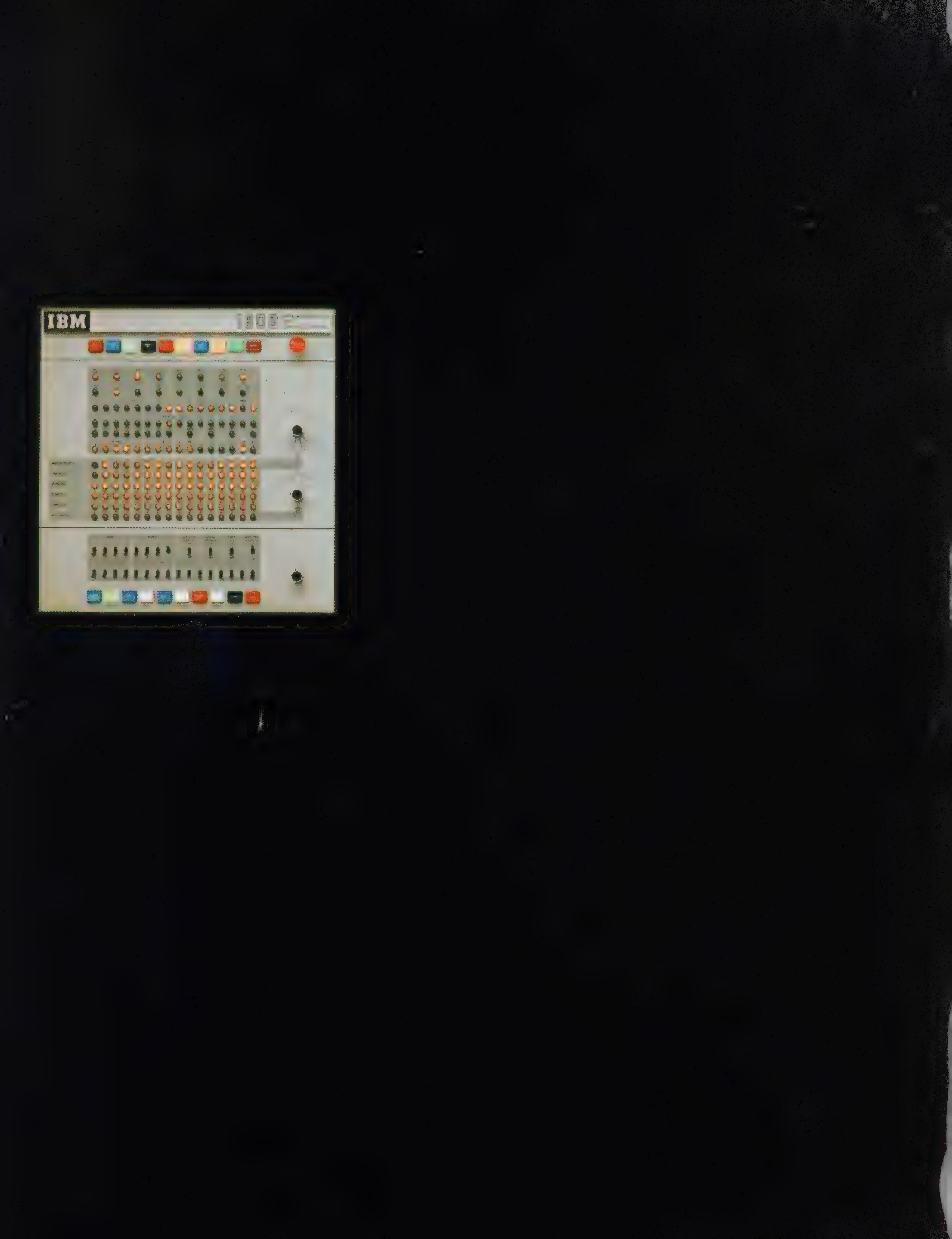
BACK COVER

The water treatment plant, at the St-Jerome mill, purifies the water before its use in the production of fine paper.

INSIDE BACK COVER

The console of the IBM 1800 computer recently installed at the St-Jerome mill to control the operations of paper machines 7 and 8.

The cover of the Report is printed on Imperial Offset Enamel, Basis 240M and the inside pages on Rolland Glowhite Offset, Basis 240M.


IBM

Rolland Paper Company, Limited

1969 Annual Report

Rolland Papers, ingredients in the lives of thousands.

Pulp:

The basic element of the products we make.

Table of Contents

ROLLAND PAPER COMPANY, LIMITED
Papermaking Specialists

Head Office:
800 Victoria Square, Suite 3620
Montreal 115, Quebec

Sales Offices:
Montreal, Toronto and Quebec

Paper Mills:
St. Jerome and Mont Rolland, Quebec
and Scarborough, Ontario

The Annual General Meeting of Shareholders will be held at the Head Office of the Company, 800 Victoria Square, Suite 3620, Montreal, Quebec, at 11:00 A.M., March 30, 1970.

Si vous préférez recevoir votre rapport annuel en français, prière d'aviser le Secrétaire, Compagnie de Papier Rolland, Limitée, 800, Place Victoria, Suite 3620, Montréal 115, Québec.

Directors

G. Drummond Birks, B.Comm.
Vice-President
Henry Birks & Sons Limited
Montreal

E. Jacques Courtois, Q.C.
Partner, Smith, Anglin, Laing,
Weldon & Courtois
Montreal

Roy H. Ecclestone
Retired Executive
Town of Kirkland

George M. Hobart
Chairman of the Board,
Consolidated-Bathurst Limited
Montreal

Richard A. Irwin
President and Chief Executive Officer
Consolidated-Bathurst Limited
Montreal

Herménégilde A. LeBlanc, C.A.
Secretary
Rolland Paper Company, Limited

*Gérard Plourde, M.Comm.
President
UAP Inc.
Montreal

*Albert Rolland
Vice-President and Marketing Consultant
Rolland Paper Company, Limited
Laval

*Lucien G. Rolland, B.A., B.A.Sc., C.E.
President and General Manager
Rolland Paper Company, Limited
Montreal

*Marc Rolland
Vice-President and Production Consultant
Rolland Paper Company, Limited
St-Jerome

Olivier Rolland
Retired Executive
Montreal

*Joseph A. Weldon, C.A., M.B.E.
Vice-President and Financial Consultant
Rolland Paper Company, Limited
Montreal

*Members of the Executive Committee

Officers

Lucien G. Rolland
President and General Manager

Joseph A. Weldon
Vice-President and Financial Consultant

Albert Rolland
Vice-President and Marketing Consultant

Marc Rolland
Vice-President and Production Consultant

André Asselin, Eng.
Vice-President—Administration

Jean-Louis Chollet, Eng.
Vice-President—Manufacturing

Hugh M. Craig, B.Sc., Ph.D.
Vice-President—Sales

Alphonse St-Jacques, C.A.
Vice-President and Treasurer

Herménégilde A. LeBlanc, C.A.
Secretary

TRANSFER AGENTS

Montreal Trust Company
Royal Trust Company

REGISTRARS

Canadian Trust Company
Bankers Trust Company

SHARES LISTING

Montreal Stock Exchange
Toronto Stock Exchange

AUDITORS

Touche, Ross & Co.

Highlights

	1969	1968
Sales in tons	**93,575**	90,877
Net sales	**$35,647,256**	$34,903,154
Net Earnings	**1,536,074**	1,406,369
Per class "A" share	**.82**	.74
Per class "B" share	**.77**	.69
Cash Dividends	**712,009**	712,009
Per class "A" share	**.40**	.40
Per class "B" share	**.35**	.35
Cash Flow	**2,665,881**	2,486,965
Per class "A" share	**1.43**	1.33
Per class "B" share	**1.38**	1.28
Book Value per class "A" and "B" shares	**9.40**	8.99
Working Capital	**9,901,323**	9,734,780
Long-term Debt	**8,751,000**	9,255,500
Capital Expenditures	**841,311**	1,261,104

Lucien G. Rolland, President and General Manager

1969 was a difficult year for the Fine Paper Industry. Nevertheless, your Company succeeded in maintaining its earnings at a level slightly higher than that of 1968. Under normal circumstances, such a performance would be disappointing. However, in view of the overall instability of the fine paper market during the year, your Directors are reasonably satisfied with the results.

In 1967, following the conclusions of the Kennedy Round, the Fine Paper Industry had planned to solve profitably, in the five years at its disposal, the numerous problems brought about by the progressive tariff reductions. The second stage of the 44% reduction was to be in 1969. Instead of the expected two percentage points decrease, however, the Federal Government surprised the Industry by implementing the full reduction, in the June budget. There was no compensating advance adjustment made in the tariffs of other nations.

This sudden reduction in tariffs profoundly disturbed the fine paper market. Many foreign products, especially those of American origin, were suddenly available at costs lower than those available from Canadian manufacturers. While distributors and consumers re-assessed their traditional market patterns, manufacturers had to modify their volume and grade structure. Prices were reduced by as much as 6% in certain cases. Furthermore, this move occurred at a time when increased Canadian postal rates were forcing an important reduction in advertising and promotional expenses. The demand for fine paper slackened. Our operations were reduced to five days. The unused capacity affected the absorption of overhead expenses, thus increasing the unit cost of production. At year-end however, we resumed seven day operations.

Ottawa's decision created a more serious long-term problem by depriving manufacturers of a vital three year lead time which would have permitted them to specialize and achieve a substantially greater efficiency of operations. Your Company found itself in the difficult position of having to reduce costs to offset the loss in revenue while accelerating its investment programme to achieve the productivity required to compete internationally.

The year was difficult in other respects. The world pulp demand expanded to a point where it was in balance with capacity and prices were raised by 8%. More efficient use of raw materials lessened the impact on our cost. An additional 9% increase, however, was announced effective January 1, 1970. This, and any further pulp price increases would be proportionately reflected in our production costs.

To meet these hurdles, Rolland reallocated its marketing efforts and concentrated on the development of technology which would profitably improve its traditional methods of operations. In the course of a long-term re-assessment of the organization, a cost reduction programme was launched to decrease fixed operation costs. Finally, in an effort to start diversifying its earnings basis, the Company purchased a fine paper merchant, Fine Papers Limited. The acquisition of this Toronto Company provides an opportunity to penetrate the distribution sector.

Above all, however, we owe our relatively satisfying performance to a better organized company. At our last annual meeting, it was stated "that corporations should not fear change but rather initiate it. They should not be afraid to question themselves. Their knowledge and their talents can only be channelled through strong, flexible competitive structures and their initiative through new undertakings and new ventures". The pursuit of this philosophy had caused us, in 1968, to restructure along more functional lines of responsibilities. In 1969, we extended this process to all company echelons in the belief that a more segmented approach to our various areas of activities would generate a more concentrated effort, better information and better results. This approach contributed to maintain our earnings and should permit us to face the problems and the changes of the years ahead.

The decade started with a stable industry, essentially oriented towards a multipurpose, low volume and profitable domestic market. It ends with a more specialized and highly competitive market which is reshaping itself on a total North-American concept. Inflation is relentlessly biting into the economy and the Government is pursuing more vigorous anti-inflationary policies which may affect the growth of fine paper consumption and reduce profits.

Our ability to make the transition is dependent on a better industry relationship with the Federal Government, on the pulp manufacturers' success in supplying the demand without further increasing prices, and on labour's understanding of the need for better productivity. Union leaders must commit themselves to help us obtain this in the shortest possible time. At first, it may entail temporary lay-offs. In the long-term, however, the resulting lower production costs will signal more competitiveness, better sales potential, increased production and greater employment opportunities.

It is our feeling that Rolland's performance in 1969 indicates its ability to improve profitably its position in the Fine Paper Industry.

To all members of the Rolland organization, the Directors wish to express their thanks and appreciation. The continued support of shareholders, customers and suppliers is also gratefully acknowledged.

Lucien G. Rolland

Lucien G. Rolland,
President and General Manager

Montreal, January 29, 1970

Financial Circles

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Earnings and Dividends

Consolidated net earnings of $1,536,074 for the year 1969 show an improvement over earnings of $1,406,369 last year. They represent 82¢ per "A" share and 77¢ per "B" share compared to 74¢ and 69¢ respectively last year.

Net sales increased slightly to $35,647,256 from $34,903,154 in the previous year.

Gross profit was unfavourably affected by newly introduced lower price grades, increased shipments to the less profitable export market, higher freight and labour costs and increased international competition.

Quarterly dividends of 10 cents per class "A" share and 8¾ cents per class "B" share were declared bringing the total distribution to 40 cents per class "A" share and 35 cents per class "B" share. Total common and preferred dividend disbursements amounted to $772,444.

Financial Position

New investments for the last year amounted to $1.5 million. These include $840,881 to modernize plants & equipment, and $646,895 to acquire a Toronto fine paper distributor, Fine Papers Limited. The excess of the consideration for the acquisition of the shares of Fine Papers Limited over their book value has been treated as an asset, and the bank indebtedness of this new subsidiary now appears on our consolidated balance sheet.

An amount of $464,588 was disbursed to retire and redeem $504,500 of our long-term debt. $300,000 was applied against the 5½% serial debentures while $125,000 was applied against the 5¾% Sinking Fund debentures. The remaining $79,500 was used to redeem the 4¼% Sinking Fund bonds. The requirements of the Sinking Fund of this issue are now satisfied until January 2, 1971.

Consolidated working capital at December 31, 1969 amounted to $9,901,323 and it is considered satisfactory for current operations. The current ratio was 3.5 to 1, slightly lower than a year ago. Inventories of $5,659,168 are higher than last year following the increase in capacity due to continuous operations during the fourth quarter and lower sales than expected. Surplus funds were invested during the year in short-term investments at current favourable interest rates.

Total assets before depreciation were $51.7 million at December 31, 1969. The rate of return on these assets was 3.0% compared with 2.9% in the previous year.

Education:
Rolland papers, part of the day's agenda in thousands of classrooms. Registration forms, lecture notes, homework, test papers, text books, bulletins and reports, scribbled messages, and even the diplomas, Rolland papers are an ingredient of the education environment

Marketing
The Canadian fine paper market was under heavy pressure throughout 1969. The unexpected full implementation of tariffs in June provided distributors with greater import opportunities. High interest rates and postal rate increases brought a reduction in advertising expenditures and in the demand for our products. Finally, Canadian manufacturers, operating with over-capacity, competed heavily with each other to keep their mills operating at the highest level possible.

In reaction to this increased competition and slower domestic growth, your Company specialized and introduced new grades.

The market's reaction to the introduction of lower quality grades, aimed at counteracting the flow of imports, was positive and the new grades well accepted. However, our product mix was downgraded and our profitability affected.

The specialization studies allowed us to eliminate many grades and to reduce the number of shades. The colours of such groups as our office papers were made uniform. Slow moving stock items were eliminated.

The uncertainty of the Canadian price structure as a result of greater import possibilities prevented the industry from increasing prices, with the exception of a few selective areas where small increases were implemented.

Two recent decisions should provide us with better marketing opportunities in the coming years. The purchasing of a fine paper merchant in Toronto and the opening of a Sales office in New York.

In the context of a corporate effort to review and consolidate its structures, the Eastern Sales Division was re-organized and Mr. W.S. Brown appointed Divisional Manager.

Mr. Robert F. Rodger, Assistant Vice-President, Advertising retired after 42 years with the Company. We wish to thank him for his long association and contribution to our organization.

Production
Continuous operations were started at the Mont Rolland and St. Jerome plants as of January 1, 1969. However, the limited amount of business forced us to operate the St. Jerome plant on a five-day week only during the period of May to September.

A cost reduction program aimed at reducing overhead expenses and increasing efficiency was put into effect. The results obtained so far include the introduction of manufacturing techniques making use of cheaper and more effective raw materials; better productivity control; the re-organization of several departments; a staff training plan; and a reduction in fixed operational costs.

In addition, certain projects have or will be completed in the near future; such as systems for improved stock preparation; automatic starch conversion and for recovery of fibres.

The Scarborough paper coating plant is following a program aimed at diversifying its production through the addition of special products other than printing papers.

Printing:
Rolland papers, part of the day's agenda in the largest and the smallest printing shops. Rules and regulations, statistical data, direct mail advertising, government information, tax forms, all are printed on one or another stock in the wide variety of Rolland papers.

Research and Technical Services
The Research and Development program continues at a steady pace.

With a view to expanding our Coated Paper operations, the research team is studying new pigmentation and coating techniques with the support of the National Research Council.

In other fields, emphasis is being placed on the reduction of raw material costs and more effective manufacturing techniques. Within this program we have successfully established a computer control for our largest paper machine. A similar system will be in operation on paper machine No. 7 at the beginning of 1970.

Considerable progress achieved in the control of water pollution will enable us to meet the standards set by the Water Control Board for our two Quebec plants.

Several new products have been developed in our laboratories or have been put into production. These products should enable us to diversify operations in more profitable fields.

The Technical Services Department has been re-organized in order to consolidate research and technical activities and coordinate the work of our research staff.

Personnel
A managerial training program was set up in the St. Jerome and Mont Rolland plants. Courses were given in 1969 and others especially designed for our organization will be added within the next year.

Similarly, a number of courses aimed at providing our paper machine operators with better training were given in 1969. This program should guarantee better productivity.

In accordance with the collective agreement, production and maintenance employees enjoyed an hourly increase of 15 cents effective June 1, 1969. Office workers also benefited from a weekly salary increase of $6.00.

The accident prevention program launched in 1968 is continuing and results are encouraging. For example, at the Mont Rolland plant, work days lost have been reduced by 79 per cent in 1968 and 1969.

After a long period of negotiation and conciliation, a collective agreement was signed with employees of the Scarborough plant on May 9, 1969. The terms provided for salary increases of 6 and 5 per cent effective November 21, 1968, and November 21, 1969. This agreement is in force for two years and renewable on November 21, 1970.

Corporate Changes
Mr. André Déom, Vice-President, Personnel left the employ of the Company on November 1, 1969.

On January 1, 1970 Mr. André Asselin, previously Vice-President Manufacturing was appointed Vice-President Administration. He is succeeded by Mr. Jean Chollet previously Vice-President Research & Technical Services.

In Everyday Life:

Rolland papers, in the hands of the housewife and the child, the clerk and the secretary, the pr reader, the copymaker and the photographer, the student and the gourmet. In every walk of lif every day.

Rolland Paper Company, Limited

Statement of Consolidated Income and Expense

	Year ended December 31	
	1969	1968
Net sales	**$35,647,256**	$34,903,154
Cost of sales	**29,381,403**	28,794,979
Gross profit	**6,265,853**	6,108,175
Selling and administrative expenses—Note 7	**2,231,890**	2,298,479
Depreciation	**1,206,907**	1,216,595
Bond interest	**520,189**	544,214
	3,958,986	4,059,288
	2,306,867	2,048,887
Interest and other income	**508,038**	428,241
Earnings from operations before income taxes	**2,814,905**	2,477,128
Income taxes	**1,443,743**	1,238,949
Net earnings from operations	**1,371,162**	1,238,179
Add:		
Dividend income	**125,000**	125,000
Excess of par value over purchase price of bonds redeemed	**39,912**	43,190
Net earnings for the year	**$ 1,536,074**	$ 1,406,369

Rolland Paper Company, Limited

Statement of Consolidated Source and Application of Funds

	Year ended December 31 1969	1968
Source of funds		
Cash flow from operations		
Net earnings	**$1,536,074**	$1,406,369
Depreciation	**1,206,907**	1,216,596
Deferred income taxes	**(77,100)**	(136,000)
	2,665,881	2,486,965
Decrease of special refundable tax	—	88,662
	$2,665,881	$2,575,627
Application of funds		
Capital expenditures—net	**$ 840,881**	$1,256,481
Long-term debt reduction	**504,500**	492,500
Dividends	**772,444**	772,444
Investment in Fine Papers Limited net of working capital acquired	**381,513**	—
	2,499,338	2,521,425
Increase in working capital	**166,543**	54,202
	$2,665,881	$2,575,627
Working capital	**$9,901,323**	$9,734,780

Consolidated Balance Sheet

Assets

	at December 31 1969	1968
Current		
Cash	**$ 563,587**	$ 401,398
Short-term investments at cost (market value $3,665,414)	**3,665,414**	4,298,911
Accounts receivable	**3,868,733**	3,224,944
Income taxes recoverable	—	159,949
Inventories—Note 2	**5,659,168**	4,557,802
Prepaid expenses	**170,726**	100,354
	13,927,628	12,743,358
Investment		
Consolidated-Bathurst Limited, common shares at cost (market value $2,906,250)	**5,862,651**	5,862,651
Fixed		
Property, plant and equipment—Note 3	**15,934,251**	16,176,079
Excess of consideration for acquisition of shares of a subsidiary over their book value	**257,315**	—
	$35,981,845	$34,782,088

On behalf of the Board:
Lucien G. Rolland, Director
J. A. Weldon, Director

Liabilities

		at December 31 1969	1968
Current			
Bank indebtedness		$ 179,567	$ —
Accounts payable and accruals		3,414,762	2,708,578
Income taxes payable		131,976	—
Long-term debt instalment due within one year		300,000	300,000
		4,026,305	3,008,578
Long-term debt—Note 4		8,751,000	9,255,500
Deferred income taxes		4,426,044	4,503,144

Shareholders' equity

		1969	1968
Capital—Note 5			
Authorized			
24,800 Preferred shares of $100 each issuable in one or more series			
2,400,000 Class "A" and 800,000 Class "B" shares without nominal or par value			
Issued			
14,220 4¼% Cumulative redeemable preferred shares	$1,422,000		
1,360,016 Class "A" and 480,008 Class "B" shares	7,162,683		
	8,584,683		
Retained earnings—For use in the business Note 6	10,193,813	18,778,496	18,014,866
		$35,981,845	$34,782,088

Rolland Paper Company, Limited

Statement of Consolidated Retained Earnings

	Year ended December 31 **1969**	1968
Retained earnings at beginning of year	**$ 9,430,183**	$ 8,796,258
Add:		
Net earnings for the year	**1,536,074**	1,406,369
	10,966,257	10,202,627
Deduct:		
Dividends		
Preferred shares	**60,435**	60,435
Class "A" shares	**544,006**	544,006
Class "B" shares	**168,003**	168,003
	772,444	772,444
Retained earnings at end of year	**$10,193,813**	$ 9,430,183

Note 1—Principles of consolidation

The consolidated financial statements include the accounts of Rolland Paper Company, Limited and its wholly owned subsidiaries, Canada Glazed Papers Limited and Fine Papers Limited. As the latter company was only acquired as of December 12, 1969, no part of its operating results since the date of acquisition are reflected in these consolidated financial statements.

Note 2—Inventories, at the lower of cost and net realizable value

	1969	1968
Finished paper and paper in process	**$ 4,109,280**	$ 2,730,919
Raw materials, wires, felts and supplies	**1,163,620**	1,462,244
Repair parts and maintenance materials	**386,268**	364,639
	$ 5,659,168	$ 4,557,802

Note 3—Property, plant and equipment

	Cost	Accumulated Depreciation	**Net 1969**	Net 1968
Machinery and equipment	$24,556,776	$12,946,327	**$11,610,449**	$11,845,446
Buildings	6,300,357	2,656,459	**3,643,898**	3,725,104
Leasehold improvements	221,994	94,722	**127,272**	142,121
Water power	300,000	—	**300,000**	300,000
Land	252,632	—	**252,632**	163,408
	$31,631,759	$15,697,508	**$15,934,251**	$16,176,079

Depreciation is provided using the straight-line method at rates designed to amortize the acquisition cost of the assets over their estimated useful lives.

Note 4—Long-term debt

		1969	1968
First Mortgage Bonds 4½% Sinking Fund Bonds due January 2, 1975	$4,000,000		
Deduct			
Bonds redeemed and cancelled, including $647,000 in anticipation of future Sinking Fund Requirements of which $201,500 is applicable to the balance due January 2, 1975	2,747,000	**$1,253,000**	$1,332,500
Sinking Fund Requirements			
$300,000 per annum January 2, 1970-1974			
Balance of $400,000 due January 2, 1975			
Debentures—Series "A"			
5½% Serial Debentures, due $300,000 per annum July 2, 1970-1971	600,000		
Deduct			
Instalment due within one year included in current year liabilities	300,000	**300,000**	600,000
5¾% Sinking Fund Debentures, due July 2, 1984	7,500,000		
Deduct			
Debentures redeemed and cancelled in anticipation of future Sinking Fund Requirements	302,000	**7,198,000**	7,323,000
Sinking Fund Requirements			
$300,000 per annum July 2, 1972-1979			
$500,000 per annum July 2, 1980-1983			
Balance of $3,100,000 due July 2, 1984			
		$8,751,000	$9,255,500

The declaration of dividends and the redemption of preferred shares are restricted if such declaration or redemption result in a reduction of the working capital to an amount less than $2,000,000.

Note 5—Capital

The preferred shares of the 4¼% series are redeemable at $104 per share and are non-voting unless four quarterly dividends are in arrears. Class "A" shares are non-voting unless the company shall fail, for a period of two consecutive years, to pay any dividend on such shares.

Class "A" shares are entitled to a non-cumulative dividend at the rate of 10 cents per share per annum before payment of any dividend on Class "B" shares. If in any fiscal year dividends at the rate of 5 cents per share per annum are paid on Class "B" shares, any further distribution in respect of that fiscal year shall be made equally, share for share, upon all outstanding Class "A" and Class "B" shares.

Note 6—Retained earnings

An amount of $258,000 of retained earnings is restricted under Section 61 of the Canada Corporations Act as a result of the redemption of 2,580 preferred shares in past years.

Note 7—Directors' remuneration

Administrative expenses include remuneration of $147,900 (1968—$148,718) paid to directors as directors or officers.

Rolland Team:
Numerous and varied talents are put to work in producing the finest papers. Thanks to the efficiency and dedication of our personnel, Rolland papers are noted for quality all over the world.

Auditors' Report to the Shareholders

The Shareholders,
Rolland Paper Company, Limited.
Montreal, Que.

We have examined the consolidated balance sheet of Rolland Paper Company, Limited and its subsidiaries as at December 31, 1969 and the consolidated statements of income and expense, retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1969 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

TOUCHE, ROSS AND CO.
Chartered Accountants.
Touche Ross & Co.
Montreal, Que.
January 26, 1970.

		1969	1968
Tonnage	Sales in tons	**93,575**	90,877
Sales and earnings	Net sales	**$35,647,256**	$34,903,154
	Dividend income	**125,000**	125,000
	Depreciation	**1,206,907**	1,216,595
	Bond interest	**520,189**	544,214
	Earnings before income taxes	**2,979,817**	2,645,318
	Income taxes	**1,443,743**	1,238,949
	Net earnings	**1,536,074**	1,406,369
	Cash flow	**2,665,881**	2,486,965
	Percentage of net earnings to net sales	**4.3%**	4.0%
	Percentage of net earnings to total assets	**3.0%**	2.9%
Distribution of earnings	Dividend on preferred shares	**$ 60,435**	$ 60,435
	Dividend on class "A" and "B" shares	**712,009**	712,009
	Retained in the business	**763,630**	633,925
Per share*	Net earnings per class "A" share	**$ .82**	$ .74
	Dividend per class "A" share	**.40**	.40
	Cash flow per class "A" share	**1.43**	1.33
	Book value per class "A" and "B" shares	**9.40**	8.99
Financial	Assets:		
	Working capital	**$ 9,901,323**	$ 9,734,780
	Investment in securities	**5,862,651**	5,862,651
	Fixed assets, net	**15,934,251**	16,176,079
	Other assets	**257,315**	—
	Total working capital and other assets	**31,955,540**	31,773,510
	Financed by:		
	Long-term debt	**8,751,000**	9,255,500
	Deferred income taxes	**4,426,044**	4,503,144
	Preferred shares	**1,422,000**	1,422,000
	Class "A" and "B" shareholders equity	**17,356,496**	16,592,866
		31,955,540	31,773,510
	Ratio of current assets to current liabilities	**3.5:1**	4.2:1
	Capital expenditures	**$ 841,311**	$ 1,261,104
Other statistics	Number of shareholders	**2,330**	2,330
	Number of employees	**1,286**	1,325

NOTE:
Results of Canada Glazed Papers Limited are included from February 24, 1964.

1967	1966	1965	1964	1963	1962	1961	1960
83,972	77,107	73,701	69,120	57,603	57,071	54,195	50,978
$32,880,771	$29,935,187	$28,290,544	$26,032,008	$20,633,530	$20,455,394	$19,379,905	$18,137,985
250,000	262,500	184,375	—	—	—	—	—
1,148,587	1,072,238	817,640	698,358	559,077	534,970	558,821	521,133
569,739	597,001	638,021	372,386	144,654	153,985	160,752	186,990
3,612,328	2,994,320	3,297,750	2,759,939	2,586,179	2,468,021	2,235,482	1,875,855
1,723,463	1,265,915	1,531,424	1,420,628	1,310,063	1,263,796	1,125,503	930,777
1,888,865	1,728,405	1,766,326	1,339,311	1,276,116	1,204,225	1,109,979	945,078
3,061,031	3,993,637	4,115,390	2,397,169	1,948,293	1,915,595	1,763,000	1,580,311
5.7%	5.8%	6.2%	5.1%	6.2%	5.9%	5.7%	5.2%
3.8%	3.7%	4.0%	3.7%	5.2%	5.2%	5.0%	4.5%
$ 61,513	$ 64,993	$ 71,400	$ 71,400	$ 71,400	$ 71,400	$ 71,400	$ 71,825
712,009	712,009	490,507	408,007	408,007	336,006	327,005	201,003
1,115,343	951,403	1,204,419	859,904	796,709	796,819	711,574	672,250
$ 1.01	$ .92	$ 1.00	$ .90	$ .85	$ .80	$ .74	$ .62
.40	.40	.30	.30	.30	.25	.24	.16
1.64	2.15	2.36	1.63	1.32	1.30	1.19	1.06
8.64	8.03	8.02	4.69	5.06	4.50	3.94	3.44
$ 9,680,578	$ 9,522,411	$ 8,408,378	$ 5,542,112	$ 5,066,795	$ 4,461,880	$ 4,041,781	$ 4,235,715
5,862,651	5,862,651	5,862,651	—	—	—	—	—
16,136,194	15,651,253	15,500,429	11,211,744	8,128,535	8,097,641	7,725,021	7,298,313
88,662	118,848	490,308	5,153,000	—	—	—	—
31,768,085	31,155,163	30,261,766	21,906,856	13,195,330	12,559,521	11,766,802	11,534,028
9,748,000	10,217,000	11,267,000	11,879,500	3,077,000	3,351,000	3,531,500	4,104,500
4,639,144	4,615,565	3,422,571	1,522,231	1,117,600	1,004,500	828,100	733,900
1,422,000	1,479,000	1,680,000	1,680,000	1,680,000	1,680,000	1,680,000	1,680,000
15,958,941	14,843,598	13,892,195	6,825,125	7,320,730	6,524,021	5,727,202	5,015,628
31,768,085	31,155,163	30,261,766	21,906,856	13,195,330	12,559,521	11,766,802	11,534,028
2.9:1	3.7:1	3.6:1	2.3:1	2.9:1	2.7:1	2.5:1	2.8:1
$ 1,639,203	$ 1,215,420	$ 5,154,185	$ 3,011,934	$ 591,885	$ 907,746	$ 1,011,293	$ 495,478
2,343	2,491	2,518	2,331	1,889	1,839	1,633	1,021
1,308	1,260	1,163	1,121	877	905	872	875

*Net earnings, dividend and cash flow per class "B" share are 5 cents less than per class "A" share.

*1965 per share calculated on average number of shares for the year.

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